

COLLIERS INTERNATIONAL VALUATION & ADVISORY SERVICES

WEEKLY MARKET RECAP



Week @ A Glance

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Macro Economic and Real Estate News

K.C. Conway, MAI, CRE, CIVAS Market Analytics

Where to begin?

Let's start with an apology for missing the U.S. debt downgrade by 5 hours. As you may recall from last week's WMR, the Economic Calendar for the Week Ahead section (page 7) cautioned that:

If unemployment rises further from 9.2%, and total job creation remains below 100,000 jobs in Friday's jobs report, "katy bar the door." The rating agencies will be forced to downgrade the U.S. debt rating from "AAA."

Although wrong about the increase in the unemployment rate - only because 154,000 discouraged Americans dropped out of the workforce, and off about the exact time of the U.S. debt rating downgrade, the debt downgrade did occur on Friday. I promise to double-down and work on the accuracy of the WMR forecasts to narrow that 5-hour margin of error. With a margin of plus or minus 5 hours, maybe I should bet it all in Las Vegas next week while addressing my fellow MAIs at the Appraisal Institute's 2011 conference.

All levity aside, writing this week's recap was a struggle for a couple of reasons. First, I was on the phone most of the weekend thru Monday discussing the downgrade with many of you and with regulatory colleagues. Second, I did not want to pile-on to the negativity - that won't solve anything. Finally, I was perplexed as to where to start to make sense of the downgrade. This event takes us into some uncharted territory. Therefore, I turned to a tried and true technique in these type of situation. I went for a walk - like I did with my late father when he had a puzzle to figure out - and then I started reading a lot of history in search of context and forgotten "lessons learned."

After I cleared my head and absorbed a few hundred pages of history, **I came upon two items to help make sense of it all.**

One item is serious, and the other is intended to encourage reflection before we jump to conclusions or buy into some of the media hysteria. The serious item is:

The first week in August has historically been a time to drop bombs, and it has been a time in which leaders fail us the most.

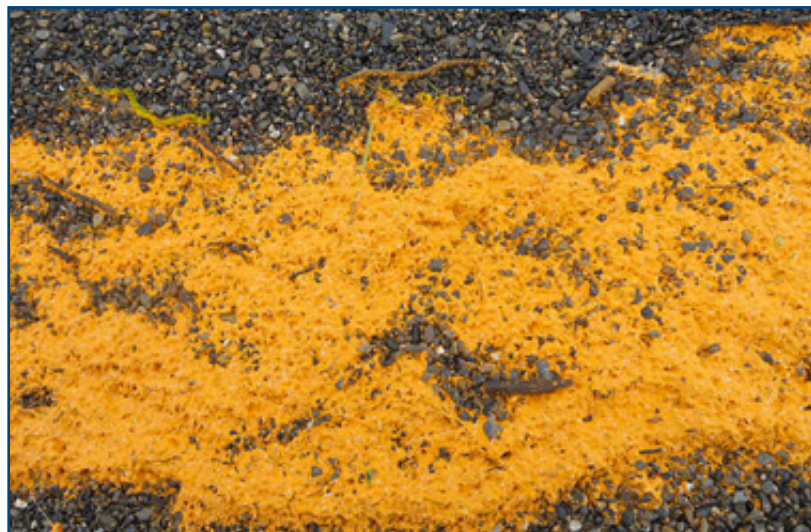
The U.S. debt downgrade was the economic equivalent of an atomic debt bomb dropped on the global market; and it was the result of an epic failing in leadership by our elected officials, Treasury secretary, and the Central Bank. Here is the historical tie in:

- On August 5th 1945, America dropped the atomic bomb on Hiroshima, Japan; and
- On August 8th 1974, former President Richard Nixon resigned the presidency following the Watergate scandal.

Maybe it is coincidental, but it stood out to me that the economic equivalent of an atomic bomb, and the colossal failure to address our debt by our elected leaders, both occurred during the same week in August as the aforementioned two events. Just as the August 1945 and 1974 events altered the course of history for decades to come, so too will the U.S. debt downgrade and this failure of leadership by Congress. **History serves to remind us of the consequences of destructive behavior and leadership failings.**

In November 2012, let's hope America will elect leaders who will focus on economic reconstruction now that the debt downgrade bomb has been dropped.

The second item - which is less serious but intended to highlight how easily it is going to be to jump to conclusions in the weeks ahead - is "Orange Goo."



Source: Associated Press

"Orange goo" is not a reference to how Denver fans refer to a bad football season by the Denver Broncos; rather, it's a reference to a mysterious substance that appeared along the shore of a remote Alaskan village (Kivalina) the day after the debt downgrade by S&P. The local media immediately jumped to the conclusion that it was somehow "fallout from the U.S. debt downgrade" - no kidding. Subsequently, scientists have determined the goo to be millions of microscopic eggs filled with fatty droplets. The scientist's identification of the goo has not altered the belief by local residents that the goo is unprecedented in the village's history and, therefore, must be related to the debt downgrade. When I stumbled onto this story, it reminded me of the hype and misinformation being spewed by media and our leaders in Congress, Treasury,

and the Central Bank. Two weeks ago, the President and Treasury Secretary suggested seniors wouldn't receive their social security checks, and the military fighting three wars might go unpaid if the debt ceiling is not raised. Now the misinformation commences about the dire consequences of the U.S. debt downgrade. Misinformation, like a sharp rise in interest rates on everything from car loans to home loans, is not just misleading, it is largely incorrect. The rates for most types of consumer debt, for example, are tied to benchmarks controlled by the FED, such as the FED Funds rate and resulting Prime Interest Rate. These rates won't change in the near term. The FED has declared that these rates will remain low for "an extended period of time."

So why are consumers, homeowners, and borrowers being fed such misinformation? The answer, as we know, is twofold: it sells media, and politicians think it scores points with their respective base supporters. In the weeks ahead, the *Weekly Market Recap* will be focused on distinguishing fiction from fact.

Before moving onto the Scoreboard, Statistic, Quote, and Headline of the week, as well as the *Bullish, Bearish and Bewildering* news of the past week, keep in perspective the following from last week's WMR:

"What is ahead for the U.S. will be unprecedented for America if its debt rating is downgraded from "AAA" regardless of a last hour agreement to raise the debt ceiling. However, a debt downgrade is not unprecedented for other G-10 economies. Canada lost and regained its "AAA" debt rating, and so can the U.S. Other countries have weathered "AAA" debt rating downgrades to recover (Australia in 1986, Canada in 1992, and Japan in 1998). While the U.S. may be a more complex downgrade as it's the world's reserve currency, and more of U.S. debt is held by foreigners than was the case with Japan's debt in 1998, a **U.S. debt downgrade from "AAA" is not insurmountable.**"

What is insurmountable is any further increase in the per capita debt obligation. Keep the per capita tally figure in mind from the table to the left which was featured in last week's WMR.

The total U.S. debt burden for every man, woman and child is approximately \$320,000 - or \$100,000 more than the median price for a new home at mid-2011.

TOTAL U.S. DEBT: All Sources (Federal, State, Municipal, & Consumer)		
DEBT CATEGORY	U.S. TOTAL	PER CAPITA \$ AMT
Mid-2011 Incurred U.S Debt	14,300,000,000,000	\$46,567
GAO Committed/Unfunded Debt	64,000,000,000,000	\$208,410
Subtotal:	78,300,000,000,000	\$254,977
All 50 States Incurred Debt	1,004,000,000,000	\$3,269
All 50 States Unfunded Pension Debt	3,137,000,000,000	\$10,215
Subtotal:	4,141,000,000,000	\$13,485
Total Consumer Debt (auto and credit cards)	2,400,000,000,000	\$7,815
Total Home Mortgage Debt (source: BEA)	10,300,000,000,000	\$33,541
Subtotal:	12,700,000,000,000	\$41,356
Total U.S. Debt (Gov. & Consumer)	98,141,000,000,000	\$319,587

Source: BEA, Federal Reserve, Treasury Dept., U.S. Census Bureau, & PEW Ctr.



THE SCORE BOARD

WEEK ENDING	BULLS	BEARS	BEWILDERED
August 5	3	4	5 ★
July 29	2	5 ★	3
July 22	3	4	5 ★
July 15	5	7 ★	5
4-Week Avg.	3.3	5.0 ★	4.5



The Score Board

"THE BEWILDERED REIGN"

As bad as the week turned out, how could it be scored as anything but *Bewildering* as a result of the downgrade to the U.S. credit rating? What we do know about the U.S. debt, weak employment situation, and anemic GDP is less relevant than what we don't know with respect to the consequences of something the U.S. has never experienced. Refer to the *Bulls, Bears and Bewildered* section to follow for full details.

STATISTIC(S) & HEADLINE FOR THE WEEK AUGUST 1-5

The Statistic(s) of the Week

The selection of this week's statistic of the week recognizes two items. First, we are "numb from the numbers" and need a break from yet another debt statistic or correlation. Second, there is a demographic trend developing in response to the ongoing financial and debt crisis that is rooted in the high unemployment rate and loss of wealth by our senior citizens. The statistic comes from the National Association of Homebuilders and has nothing to do with how few homes are being built and sold or how much home prices have declined. It relates to the most requested upgrade feature being requested in the few homes that are being built.

The number one requested upgrade feature in a new home is the addition of an "entry-level" bedroom to accommodate an adult child or an elderly in-law living at home.

Further, the number one type of home renovation project by existing homeowners in 2010 were home modifications related to aging (walk in bathtub or exterior handicap ramp) or accommodating another adult living in the home (converting basement or attic space to a bedroom or apartment).

This week's statistic corroborates a trend that we all have suspected. That trend is that the high rate of unemployment, as well as loss of wealth by senior citizens, is causing households to double up. Unemployed adult children are moving back home. A growing number of elderly in-laws have either insufficient dividends being paid on savings or value remaining in investments so they can afford to live independently.

The silver lining in this statistic is that pent-up housing demand is occurring that will result in a housing recovery once employment re-establishes above 200,000 jobs per month.

The cloud in this statistic is that in-laws and adult children are coming home to a space you had reclaimed for yourself. You thought housing had hit bottom.

With regards to the quote of the week to the left, look for these types of pieces in the weeks ahead and share with internal portfolio managers, senior credit officers, clients and colleagues. This kind of thoughtful analysis is what we should be hearing from our elected leaders, Treasury Secretary, and Central Bank. We are still the reserve currency of the world. The United States has always overcome the insurmountable to prevail as a world leader, and we have always found our way back to the main trail after exploring the forest. We only need to find our compass and set a course in the direction of **True North**.

The Headline(s) of the Week

Last week's headline of the week related to S&P, and so does this week's headline – although not because of the U.S. debt downgrade. I'm assuming the debt downgrade headline reached everyone if even the villagers of Kivalina, Alaska could attribute "Orange Goo" to the debt downgrade. The S&P related headline for this week - that preceded S&P's decision to lower the U.S. credit rating – is:

Italy's police raid of the Milan offices of S&P and Moody's as three S&P's analysts and one from Moody's became under investigation by Italian police for the integrity of their debt ratings.

The Quote of the Week

"It's like you are going from a Rolls-Royce to a Mercedes—not from a Rolls-Royce to a Yugo."

—Eric Dash, New York Times: *AAA Rating is a Rarity in Business*.

In this piece, the NY Times provides a balanced perspective on the debt downgrade. Interviewing a senior portfolio manager for the bond giant Western Asset Management, Eric Dash captures a quote that helps put into perspective what a double-A credit rating means versus a triple-A rating. In other words, we slipped a notch. We did not fall off a cliff – yet. The article goes on to conclude with the perspective:

"Today, markets often render credit judgments before the rating agencies can take out their pens, so a downgrade has a less noticeable effect. By that time, many of the traditional benefits of being deemed triple-A, like lower borrowing costs and reputational glow, have evaporated."

On Thursday August 4th, CNBC's Italian correspondent Vittoria Pirone broke the news that Italian police raided the Milan offices of Moody's and Standard & Poor's. The raid came as both agencies pondered a further downgrade of Italy's sovereign debt after concerns about the country's debt-to-GDP ratio.

Consumer groups in Italy had complained to the government that the S&P and Moody's ratings of Italian companies and debt appeared inconsistent with those of other Euro-zone countries and the United States. Of more intrigue to many, including the U.S. Treasury Department, is whether Italy's raid the day before S&P downgraded the U.S. credit

rating influenced the timing of S&P's decision regarding the U.S. the next day.

The reason this week's and last week's headlines regarding S&P are so relevant is that they reinforce one of the primary criticisms of the Dodd-Frank legislation.

That criticism is how the rating agencies escaped any reform when they were at the heart of the 2008-2009 financial crisis. One has to wonder how S&P and the other two U.S. rating agencies can regain the reputation they once held world-wide. The integrity of the U.S. rating agencies has been materially impacted. Expect the first order of business from Congress after Labor Day to be special hearings and investigations of the rating

agencies. In the interim, the real risk to the American economy is that maturing and new debt will lock-up without faith in credit ratings.

The CMBS market is already evidencing this situation as S&P has suspended issuance of ratings while it reviews DSCR calculation methodology. Spreads have blow out and originators are refusing to commit or lock rates on any further new CRE debt. This is an example of the way in which leadership failings inhibit job growth. The question to put to the Federal Reserve in light of these developments is:

Will it resurrect a TALF type program to prevent another CMBS shutdown?

Hopefully the Federal Reserve still has fresh in its memory the turmoil that resulted from the 2009 shut down of the CMBS market. Let's not go there again. To our regulatory colleagues, be proactive with respect to CMBS and don't let it shut down again. It is very difficult to restart.

Included to the left is last week's chart on CMBS issuance YTD and in the pipeline through August. After that, things look pretty sparse.

YTD 2011 CMBS ISSUANCE: By Type With Pipeline Thru August 2011

ISSUANCE NAME	ISSUANCE TYPE (SINGLE/MULTI)	ISSUANCE TYPE (PRIVATE/GOV.)	ISSUER	ISSUANCE SIZE (\$)	ISSUANCE DATE	PRIVATE/GOV.
WFDB 2011-BXR	SnglAsset/Borr	Private	Wells Fargo	1,000,000,000	8/18/11	Private
FREMF 2011-K14	Conduit	Government	JP Morgan	1,191,595,324	8/10/11	Government
WFRBS 2011-C4	Conduit	Private	Wells Fargo	1,480,697,060	8/9/11	Private
JPMCC 2011-CCHP	SnglAsset/Borr	Private	JP Morgan	425,000,000	8/8/11	Private
COMM 2011-THL	SnglAsset/Borr	Private	Deutsche Bank	975,000,000	7/28/11	Private
GSMS 2011-GC4	Conduit	Private	Goldman, Sachs & Co.	1,476,098,883	7/28/11	Private
BAMLL 2011-FSHN	SnglAsset/Borr	Private	B of A Merrill Lynch	410,000,000	7/14/11	Private
LNSTR 2011-1	Conduit	Private	JP Morgan	359,479,580	6/30/11	Private
FREMF 2011-K702	Conduit	Government	JP Morgan	1,199,030,698	6/29/11	Government
DBUBS 2011-LC2	Conduit	Private	Deutsche Bank	2,143,913,255	6/28/11	Private
JPMCC 2011-C4	Conduit	Private	JP Morgan	1,447,107,234	6/23/11	Private
MSC 2011-C2	Conduit	Private	Morgan Stanley	1,213,951,725	6/22/11	Private
FREMF 2011-KAIV	SnglAsset/Borr	Government	B of A Merrill Lynch	672,342,988	6/9/11	Government
WFRBS 2011-C3	Conduit	Private	Wells Fargo	1,446,013,394	6/9/11	Private
FREMF 2011-K13	Conduit	Government	B of A Merrill Lynch	1,250,189,452	5/26/11	Government
FDIC 2011-C1	Conduit	Government	Wells Fargo	374,286,161	4/29/11	Government
CFCRE 2011-C1	Conduit	Private	Cantor Fitzgerald & Co	633,243,881	4/28/11	Private
FREMF 2011-K12	Conduit	Government	Wells Fargo	1,208,640,464	4/27/11	Government
FREMF 2011-K11	Conduit	Government	Deutsche Bank	1,185,559,783	3/31/11	Government
GSMS 2011-GC3	Conduit	Private	Goldman, Sachs & Co.	1,395,649,099	3/30/11	Private
JPMCC 2011-C3	Conduit	Private	JP Morgan	1,498,807,353	3/18/11	Private
GSMS 2011-ALF	SnglAsset/Borr	Private	Goldman, Sachs & Co.	325,000,000	3/17/11	Private
WFRBS 2011-C2	Conduit	Private	Wells Fargo	1,294,512,851	3/10/11	Private
FREMF 2011-K701	Conduit	Government	Morgan Stanley	1,014,943,804	3/9/11	Government
MSC 2011-C1	Conduit	Private	Morgan Stanley	1,541,988,998	2/28/11	Private
DBUBS 2011-LC1A	Conduit	Private	Deutsche Bank	2,166,212,202	2/25/11	Private
FREMF 2011-K10	Conduit	Government	JP Morgan	1,162,468,621	2/10/11	Government
Total Single Asset	\$3,807,342,988	Total Gov/Agency		\$9,259,057,295		
Total Conduit	\$26,684,389,822	Total Private		\$21,232,675,515		
Total-All Issuance Type				\$30,491,732,810		

Source: Federal Reserve Bank of New York, TREPP, FDIC, Freddie Mac

The Bulls, The Bears & The Bewildering

Surprise – There was *Bullish* news despite the anxiety of the employment reports and debt downgrade that dominated market behavior. The week scored *Bewildered* versus *Bearish* because more is unclear to us in the aftermath of the debt downgrade. *Bulls and Bears are Bewildered* alike. Take for example employment as an economic measure to forecast. We learned on Friday that private sector hiring is like the little engine that said “I think I can, I think I can” and then did it. Like employment, there are many unanswered questions that won’t sort themselves out any time soon. Questions such as:

Will the debt downgrade result in a contraction of credit to small businesses again, and/or suck the life out of any confidence they had to expand and hire?

- Will interest rates rise, or is it irrelevant because credit will become so constrained until the U.S. gets its fiscal house in order that Americans can’t attain credit?
- Will consumers see any balance left in their 401(k)s after the market corrects in response to the downgrade? The consumer’s confidence was already waning, and soon they will get refreshed 401(k) statements 6-8 weeks in advance of the holiday retail season. Does anyone believe that consumer confidence will rise in the aftermath of this debt downgrade and market correction?
- Will we get QE-3 from the FED and see the dollar plummet further, spiking all commodity prices; or will the FED finally say to Congress: “It’s your job now” and get the U.S. fiscal house in order?

Next week’s FOMC meetings will be the event to monitor. Will we finally hear from the Central Bank, and does Chairman Bernanke have any new and improved TARP, TALF, etc. programs?

Let’s hope the policy positions promulgated by the FED presidents – especially Bullard from St. Louis, Fisher from Dallas, Hoenig from Kansas City, Lacher from Richmond, and Dudley from New York – prevail over the voting Governors that have a dearth of industry experience and lean toward QE-3 and more regulation. More than one Fed Governor is promulgating FED oversight of the rating agencies.

St. Louis FED President Bullard was spot-on last week at the annual FED gathering in Jackson Hole, Wyoming on policy relating to employment, inflation, and further monetary stimulus. Read his piece “Rotten to the Core.”

- Finally, will the debt downgrade be the game-changing event that enables the U.S. to reverse its current fiscal course and finally operate as most Americans, businesses, and states do: within a budget?

The WMR outlook for 1H 2011 was: **“Slow growth (<2% GDP) as we cut big government debt.”**

Just as that forecast proved accurate with just 0.4% GDP in Q1 and 1.3% GDP in Q2 (the recently released advance estimate that will likely be revised down in the coming months), The WMR’s 2H 2011 forecast first heralded two weeks ago will also prove accurate. That forecast is:

“No growth while government can’t act.”

To bolster the validity of this 2H 2011 forecast, ask where Congress is until September in the midst of the most defining economic event for our country in the last half century. The answer: on vacation after leaving the FAA unfunded. The Scoreboard outlook is leaning toward *Bewildering* until Congress returns to work. Maybe the markets will sort it out by then and realize:

“It’s like you are going from a Rolls-Royce to a Mercedes—not from a Rolls-Royce to a Yugo.”



It was a bit of a challenge, but a couple of Bulls were spotted on the landscape. At first glance, these few *Bullish* items may seem trivial, but they are actually quite material to the U.S. developing a strategic game plan out of its abysmal employment situation and economically paralyzing dependence on foreign oil. The *Bullish* items for last week were:

- Private sector employment
- Green Building Technology
- Rockies Express natural gas pipeline

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Private Sector Employment

Last week's weekly jobless claims and BLS monthly jobs reports for July held some "it's not getting worse" news regarding employment. First, weekly jobless claims are holding at around the 400,000 level rather than spiking to higher levels amidst the debt ceiling spectacle.

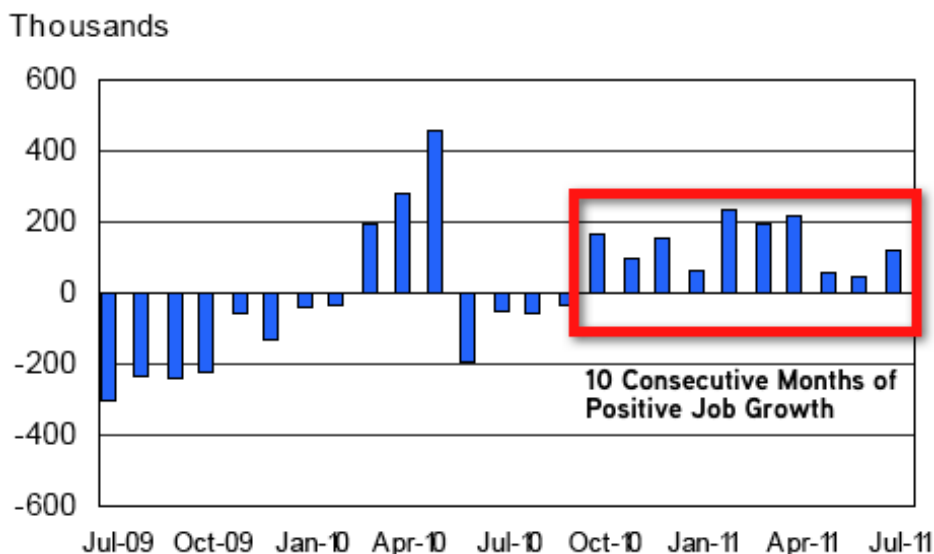
UNEMPLOYMENT INSURANCE DATA FOR REGULAR STATE PROGRAMS					
WEEK ENDING	ADVANCE JULY 30	JULY 23	CHANGE	JULY 16	PRIOR YEAR
Initial Claims (SA)	400,000	401,000	-1,000	422,000	474,000
Initial Claims (NSA)	339,348	369,287	-29,939	470,077	402,140
4 WK Moving Avg. (SA)	407,750	414,500	-6,750	422,250	439,250

This trend could change later in Q3, but for now, let's take the news as promising. Second, in the weekly jobless claims report for the week ending July 30th:

No states reported an increase in weekly claims above 1,000.

The state government cuts have run their course until mid-year budget adjustments at the end of Q4. Lastly, the private sector demonstrated in Friday's jobs report that it is doing all it can and is still producing over 100,000 jobs per month. Keep in mind that at least we have had 10 consecutive months of positive job growth.

Chart 2. Nonfarm payroll employment over-the-month change, seasonally adjusted, July 2009 – July 2011



Source: BLS July Jobs report Released Aug. 5th

Green Building Technology

When the U.S. looks to areas that it can lead the world with respect to jobs, energy, and the technology to mitigate carbon based fuels are key areas. A real success highlighted this past week was the achievement of "Net-Zero Energy Usage (NZEU) for one full day" by the nation's largest and newest net-zero energy building located outside Denver in Golden, Colorado.



Thanks to its arrays of photovoltaic cells with a total production capacity of 973 kW, the new 220,000 square foot National Renewable Energy Laboratory building produced as much energy as it used on June 22. Researchers in the Dept. of Energy's new facility expect the Golden, Colorado building to achieve NZEU for the month of July, assuming the sun continues to shine. Given the Colorado climate and the summer heat wave we've been experiencing from across the country, it's a good bet that the building will achieve NZEU for the month of July.

This kind of success in energy technology is occurring nationwide and can translate into the same volume of jobs the silicon chip did for our computer industry.

The Rockies Express Natural Gas Pipeline

The final *Bullish* item continues the energy theme. Because of the debt ceiling debacle that dragged out for weeks and now the debt downgrade, it escaped media attention that we are in hurricane season. Due to the absence of tropical storms thus far, there has been little focus on what would happen to already elevated energy prices if a major storm were to disrupt operations in the Gulf.

This past week, there was news on the success of the on-lining of the new Rockies Express natural gas pipeline that runs from Colorado to Ohio and is capable of replacing much of the U.S. natural gas needs from the Gulf should another Katrina type storm develop.

THE DOWNGRADE SHOULD NOT HAVE BEEN A BIG SURPRISE. CHINA HAD ALREADY MOVED TO DOWNGRADE THE U.S. THE PRIOR WEEK BY ITS OWN RATING AGENCY.

Not only is this new pipeline great news for mitigating natural gas disruption risk from the Gulf, it is big news in the U.S. having a plentiful supply of natural gas as an alternative to imported oil. "As major pipelines go, it's very real and very big," says John White, vice president at energy investment firm Triple Double Advisors LLC. "It's one very large project that can provide 11% of the nation's gas supply."

The U.S. is on track to potentially become an exporter of energy (liquefied natural gas, coal, etc.). In other words, the U.S. need not be beholden to OPEC if we are capable of solving our energy problems through a combination of using our own carbon resources and technology. Oil need not remain at elevated \$100 per barrel prices.



THE BEARS

This week's coverage of the major *Bearish* news will be comparatively brief, as we have been bombarded with media coverage of the debt downgrade. Based on communication with many of you over the past few days, it's clear that there is "Bear" fatigue, yearning for some hibernation from it all. Let's just outline the key items and review the charts.

U.S. Debt Downgrade

The downgrade should not have been a big surprise. China had already moved to downgrade the U.S. the prior week by its own rating agency. The debt ceiling compromise put off the tough cuts and tax decisions. The markets were disappointed and voted with a sell-off. Additionally, Italy called foul on S&P on Thursday, August 4th by raiding their Milan offices and openly challenging the credibility of the rating agency. The best suggestion offered thus far over this rating agency controversy is that we need to change their names to rating companies. Why companies instead of agencies? Because they clearly lack the ability to rate countries when one understands the accounting gimmickry, politics, and citizenry resistance to austerity, and transparency to the books. The U.S. Federal Reserve is undergoing its first ever GAO audit as a result of the Dodd-Frank legislation, and already we have learned about the abuses of "exigent circumstances" in the FED's use of its 13-3 emergency lending authority. Let's acknowledge that:

- It may not be possible to accurately rate the amount of sovereign debt; and
- The rating agency industry will change dramatically as an after effect of this sovereign debt crisis in both the U.S. and Europe.

HOUSEHOLD DATA:

Alternative Measures of Labor Underutilization

MEASURE	NOT SEASONALLY ADJUSTED		
	JULY 2010	JUNE 2011	JULY 2011
U-1 Persons unemployed 15 weeks or longer as a percent of the civilian labor force.	5.5	5.1	5.2
U-2 Job losers/persons who completed temp jobs.	5.8	5.1	5.2
U-3 Total unemployed as a percent of the civilian labor force (Official).	9.7	9.3	9.3
U-4 Total unemployed plus discouraged workers, as a percent of the civilian labor force.	10.4	9.9	10.0
U-5 Total unemployed, plus discouraged workers, plus all other persons marginally attached to the labor force.	11.2	10.9	10.9
U-6 Total unemployed, plus total employed part time for economic reasons.	16.8	16.4	16.3

Source: BLS

Employment

The Challenger job cuts report told us that private companies are planning more cuts in Q3 and Q4. Big tech companies, like Cisco, are already announcing their plans to reduce global staff. The Challenger report is your leading indicator as to what to anticipate in unemployment 6 months out.

The ADP report told us that private companies are doing all they can to eke-out 100,000 jobs per month. GDP estimates for 2H 2011 of 2%+ are in Hope, Arkansas and not Realityville USA when you combine the Challenger and ADP data.

The Labor Department and BLS jobs report was "not as bad as had been feared" and is misrepresenting the true unemployment rate in America. Approximately 13.9 million persons are officially unemployed, but another 2.8 million are considered "unofficially employed" or "marginally attached." The U-6 total unemployment rate exceeds 16%.

IPO Activity is Suspended

One of the consequences of this debt ceiling debacle, debt downgrade and market sell-off is that companies previously planning to go to the market to raise capital and expand are suspending such plans. This past week, Ally Financial delayed its \$6 billion initial public offering until at least September. Ally executives cited volatile market conditions and a “plunging stock market” as reasons for shelving the auto and mortgage lender’s hopes to launch an offering this summer. That delay will likely have a ripple effect as to the availability of financing to consumers for auto and home improvement loans.

Bank Failures

They keep on coming and now tally 63 for 2011. Georgia, Florida, Illinois and Colorado lead the list of states with the most failures.



THE BEWILDERED

The list of metrics that are perplexing continues to grow. Discussions with a number of you regarding the list of items behaving in a counter intuitive fashion led to the recommendation to score the Bewildered at 98.141 trillion – the sum total of the U.S. debt from all sources – Federal, State, Municipal, Consumer, and Mortgage. There were just two problems with this recommendation:

- There is not enough room in the Scoreboard to insert a figure as large as 98,141,000,000,000 and
- The Scoreboard would never again have a moving average that would be anything but a Bewildered.

Therefore, my top 5 perplexing items for the past week are:

- Jobs, Interest Rates, Debt Ratings
- Leadership in crisis & Bank Deposits

Jobs

It is perplexing that the government keeps 6 separate measures of unemployment, yet selects the one that reports a declining unemployment rate as the official rate. The U-3 rate is the official unemployment rate. It declined to 9.1% in the latest July report released August 5th. However, there is the U-6 rate - also known as the “total unemployment rate.” The U-6 rate shows unemployment in excess of 16%.

Why does the business media focus just on the U-3 rate each month, and why is the “official” unemployment rate not reflective of the total number of Americans out of work? Both are good questions; a career Fed economist could lull you to sleep with the explanation. Better yet, focus on the U-6 total unemployment rate and ignore the semantics regarding “marginally attached” employed, etc. Until we see the U-6 rate fall well below 10%, the U.S. has a serious unemployment problem.

Interest Rates

It’s difficult for the average American to understand how the U.S. debt rating can decline, yet remain able to obtain loans in the form of issuing Treasury bonds at an ever-declining interest rate that will likely challenge the 2.0% range next week.

2011 RECENT BANK FAILURES

BANK NAME	ST	CLOSING DATE
Bank of Whitman	WA	5-Aug-11
Bank of Shorewood	IL	5-Aug-11
Integra Bank National Assoc.	IN	29-Jul-11
BankMeridian, N.A.	SC	29-Jul-11
Virginia Business Bank	VA	29-Jul-11
Bank of Choice	CO	22-Jul-11
LandMark Bank of Florida	FL	22-Jul-11
Southshore Community Bank	FL	22-Jul-11
Summit Bank	AZ	15-Jul-11
First Peoples Bank	FL	15-Jul-11
High Trust Bank	GA	15-Jul-11
One Georgia Bank	GA	15-Jul-11
Signature Bank	CO	8-Jul-11
Colorado Capital Bank	CO	8-Jul-11
First Chicago Bank & Trust	IL	8-Jul-11
Mountain Heritage Bank	GA	24-Jun-11
First Com. Bank of Tampa Bay	FL	17-Jun-11
McIntosh State Bank	GA	17-Jun-11
Atlantic Bank and Trust	SC	3-Jun-11
First Heritage Bank	WA	27-May-11
Summit Bank	WA	20-May-11
First Georgia Banking Co.	GA	20-May-11
Atlantic Southern Bank	GA	20-May-11
Coastal Bank	FL	6-May-11

Source: FDIC

2011 BANK FAILURES BY STATE

BANK NAME	ST	CLOSING DATE
Bank of Choice	CO	22-Jul-11
Signature Bank	CO	8-Jul-11
Colorado Capital Bank	CO	8-Jul-11
FirsTier Bank	CO	28-Jan-11
United Western Bank	CO	21-Jan-11
LandMark Bank of Florida	FL	22-Jul-11
Southshore Community Bank	FL	22-Jul-11
First Peoples Bank	FL	15-Jul-11
First Com. Bank of Tampa Bay	FL	17-Jun-11
Coastal Bank	FL	6-May-11
Cortez Community Bank	FL	29-Apr-11
First Nat’l Bank Cent. Florida	FL	29-Apr-11
Sunshine State Com. Bank	FL	11-Feb-11
First Com.Bank of Florida	FL	7-Jan-11
High Trust Bank	GA	15-Jul-11
One Georgia Bank	GA	15-Jul-11
Mountain Heritage Bank	GA	24-Jun-11
McIntosh State Bank	GA	17-Jun-11
First Georgia Banking Co.	GA	20-May-11
Atlantic Southern Bank	GA	20-May-11
Bank of Shorewood	IL	5-Aug-11
First Chicago Bank & Trust	IL	8-Jul-11
Western Springs Nat’l B & Tr	IL	8-Apr-11
The Bank of Commerce	IL	25-Mar-11

Source: FDIC

A RATING IS ONLY AS GOOD AS THE PERCEPTION OF ITS INTEGRITY AND QUALITY.

The average American does not have the economics or finance background to appreciate size and liquidity of one market versus another. Rather, they just understand that the U.S. debt rating is similar to their FICO credit score, and that as ones credit score deteriorates the rate of interest they are charged increases. What many in the valuation industry do not understand is that the important figure is not the interest rate on the 10-year Treasury; instead, it is the spread over the Treasury that is important in real estate markets.

As the yield on the 10-Year Treasury declines for liquidity reasons, the spread will increase to determine the rate applicable to real estate, as real estate requires a premium to compensate for being regarded as less liquid. Next week, the market will likely quit trying to price a spread over 10-Year treasuries and the real estate debt markets will seize up again like they did in the fall of 2008 and 2009. It will be interesting to see if the FED addresses this point in its post FOMC meeting press conference. Monitor the spread over the 10-Year Treasury – not the absolute Treasury rate. Rating agencies operate in secrecy without transparency into how they derive credit ratings or when they determine to upgrade or downgrade. **Are the ratings truly independent and unbiased?**

After the revelations on rating agencies from the financial crisis, Madoff scandal, admitted \$2 trillion miscalculation in S&P's latest downgrade of the U.S., and the Italian government's raid of both S&P's and Moody's Milan offices to get to the heart of the two agencies independence and rating process, it is likely most of the world is bewildered about debt ratings. **Like the value of "fiat currency," debt ratings are only as credible as the promise of integrity behind them. Increasingly we are discovering that both our "fiat currency" and debt ratings are about as valuable and reliable as the wizard behind the yellow curtain in the Wizard of Oz.**

Leadership

Two questions sum up this item:

Q-1 Where is Congress in the midst of the most serious economic event and market turmoil since 2008, 1987 or in a post WW II period?

A-1 In recess and on vacation after punting on the debt ceiling, failing to fund the FAA, and the Senate not passing a budget in 2 years.

Q-2 Where has the U.S. Central Bank been since Friday afternoon when the U.S. credit rating was downgraded?

A-2 In Jackson Hole, Wyoming on their annual "boondoggle" with not a word from Bernanke.

Is it any wonder the markets are in chaos? Where is the political and Central Bank leadership to address the key liquidity and credit issues being asked by the market? In the absence of leadership, the markets will remain in disarray. The "greatest generation" must be turning over in their graves with disgust at the way the "baby-boom" generation is responding to its time of crisis. Let's hope the leadership failings don't get remembered as the "baby boom-gone bust" generation.

Bank Deposits

Before the debt downgrade on Friday, I came across the Reuters story regarding the Bank of New York beginning down the path of charging customers to increase deposits. Citing an overwhelming influx of cash deposits from large clients in reaction to world economic events, Bank of New York explained in a letter to clients that it will begin passing along some insurance fees on selected accounts that exceed a depositor's prior monthly average.

The Bank defended the move by explaining that the recent flood of cash is affecting its capital ratio and insurance fees. "The transient nature of these new deposits prevents us from investing our balance sheet to cover the costs incurred from sudden and significant increases in U.S. Dollar Deposits." The bank urged clients to reduce their deposit balance and "to consider a variety of cash investment options to minimize any effect. It's no wonder homeowners are adding entry level bedrooms or renovating their existing homes for senior in-laws. How can an elderly parent make any kind of return on savings when banks start charging you for holding your cash?

Economic Calendar

AUGUST 8 – AUGUST 12

The focus will be entirely on the Federal Reserve's FOMC meetings on Tuesday and market reaction to the U.S. debt downgrade. Weekly jobless claims, earnings from the remaining companies to report Q2 results will take a back seat to the market response. Prepare for volatility and conclude any pending debt transactions before the market seizes up. It's likely that CMBS issuance is on hold for the balance of 2011, and banks will be on the sidelines given the regulatory uncertainty. Finally, it will be interesting to gauge the results of the Treasury Department's 10-Year bond auction on Wednesday. We could very well see a record low yield set on the 10-Year Treasury. Will the yield find a floor of 2.0% or fall even lower?

KEY ECONOMIC FINANCE RATES

US UNEMPLOYMENT (AUG):

U-3 (official rate)	9.3%
U-6 (total rate)	16.3%

Note: Just Updated Aug 5

JOBLESS CLAIMS: (JULY)

Initial (July 29th)	400,000
Initial (Prior Wk)	401,000
4-Wk Average	402,250

HOME FORECLOSURES:

CY 2011	1,100,000
CY 2010	1,005,000
CY 2009	918,000
Dec 2010	69,847

GROSS DOMESTIC PRODUCT:

Q2 2011(Advanced)	+1.3%
Q1 2011 (Revised)	+0.4%
Q4 2010	+2.8%
Q3 2010	+2.6%
CY 2010	+2.9%

TREASURY RATES (JULY 29):

2-Year Tr	0.36%
10-Year Tr	2.80%

LIBOR

6-Month	0.42%
3-Month	0.25%
1-year	0.74%
PRIME % (US)	3.25%

(Fed FOMC Mtg Aug 9th)

MORTGAGE RATES (JULY 29):

30-yr Fixed	4.78% (up 3 bps)
15-yr Fixed	4.01% (up 1 bps)

CONSUMER PRICE INDEX:

June 2011	-0.2%
May 2011	+0.2%
April 2011	+0.4%
Mar 2011	+0.5%

CMBS DELINQUENCY:

(Source: TREPP)	
9.88% - July 2011	up 51 bps
9.37% - June 2011	down 23 bps
9.60% - May 2011	down 5 bps
9.65% - Apr 2011	up 23 bps
9.42% - Mar 2011	up 3 bps
9.39% - Feb 2011	up 5 bps
9.34% - Jan 2011	up 32 bps

COMMODITIES:

Gold (\$/oz June 22)	\$1,631
Gold (high: 5/4/11)	\$1,541
Oil (WTI) July 15' 11	\$95.70
Oil (High) Jun 13' 08	\$135.00

DISCUSSION ITEM

On Wednesday August 10th, Colliers will be hosting a call with 50 or more of our largest real estate finance clients to obtain their insights into the following:

- The downgrade of the U.S. debt rating is unprecedented in U.S. history, but not among other G-10 economies. Australia, Canada, and Japan have all been through downgrades and markets did not become as tumultuous as the U.S. downgrade. Why?
- How are you thinking about commercial real estate as an investment post the downgrade, and are you re-thinking items like cap rates?
- In a post WW II era, the risk free rate to build up a cap rate for income producing real estate was the 10-Year U.S. Treasury. Since 1944, the U.S. credit rating has been AAA. What impact does this downgrade have on cap rates and how do we measure it with respect to valuations in this period of market turmoil?

Prior to the U.S. debt downgrade, there was news impacting liquidity to commercial real estate. Late Wednesday July 27th, S&P announced: **It would not be issuing ratings for two new CMBS issuances by Goldman Sachs and Citi that were to close on Thursday, July 28th.**

The move by a major rating agency to refuse issuance of a rating the day before a transaction is to close after completing all underwriting is rare - and without precedent in the CMBS 2.0 era. How does the U.S. debt downgrade complicate CMBS issuance for the rest of 2011 that already was under a cloud as a result of this action by S&P against the Goldman and Citi transactions? The U.S. debt downgrade is obviously the mother of all "material changes" in a market. Recognizing that the bank regulatory interagency guidance requires re-appraisal upon the occurrence of a "material change in the market," how are you looking at the existing valuations of your real estate assets as a result of this debt downgrade?

- There is obviously a domino or ripple effect to play out. The most important question we should be asking is "What don't we know?" What ripple effects are you assessing and are there any insights that you would be willing to share?

We'll share a summary of this call in next week's *Weekly Market Recap*. The summary will not contain citations to any individual person or client, just the key points by type of company (bank, hedgefund, life company, etc.). You won't want to miss next week's recap to obtain the latest thinking and market reaction by 50 leading CRE finance participants in the trenches of this debt downgrade crisis.

512 offices in 61 countries on 6 continents

United States: 125
Canada: 38
Latin America: 18
Asia Pacific: 214
EMEA: 117

- \$1.5 billion in annual revenue
- 979 million square feet under management
- Over 12,500 professionals

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